



AFFORDABLE FOR ALL:

MAKING LICENSED CHILD CARE AFFORDABLE IN ONTARIO

Executive Summary

February 2018

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This study seeks to answer the question “What is the best way to improve the affordability of licensed child care for infants, toddlers and preschoolers in Ontario?” It seeks to provide a comprehensive analysis of alternative funding and policy options and to recommend steps forward that can dramatically improve child care affordability for families.

After much consideration of evidence and ideas, our main recommendation is that the Government of Ontario should implement free child care for preschool-aged children (30 months to kindergarten age) as an immediate priority. As physical and staffing capacity are ramped up over the next few years, increased affordability for other ages should be phased in.

Making child care free for all children of preschool age will improve affordability for all families in the one or two years before kindergarten. As physical capacity for preschoolers is expanded, the Ministry will have to ensure that physical and staffing capacity for services to infants and toddlers expands as well.

In the near term, the Ministry of Education should continue, and fund more generously, the existing subsidy system. Restrictive regulations on activity requirements should be loosened.

When additional licensed child care capacity is available and qualified staff shortages have been reduced or eliminated, the child care subsidy system should be replaced with a sliding scale of payments - a \$50,000 to \$150,000 sliding scale - to make licensed child care affordable for children of other ages. Family income would determine the percent of full fee a family would have to pay. For children other than preschool age, families with earnings less than \$50,000 would pay nothing; and families earning over \$150,000 would pay 80% of the full fee. In between, families pay an increasing percentage as family income rises. We call this a \$50K-\$150K sliding scale.

Chapter 1: Introduction, Objectives and Principles

The first chapter introduces the study by describing the objectives and providing background information about the Government of Ontario's commitments related to child care. Chapter 1 also addresses the methods used in the study and sets out the characteristics that a reform of the early learning and child care system should have.

Chapter 2: Child Care Services in Ontario

There are over 5,300 licensed child care centres in Ontario with over 406,000 spaces for children 0-12 years. Just over 161,000 of these centre spaces are for infants, toddlers and preschoolers, often described as children 0-4 years. Nearly 106,000 of these spaces (as of March 2017) are for children of preschool age. There are also 124 licensed home child care agencies. These agencies co-ordinate and monitor nearly 7,600 family homes (3,765 currently active) that provide care for nearly 16,000 children. Nearly 76% of Ontario's licensed child care centres are not-for-profits.

Across Ontario, there are enough licensed spaces in centres and homes for infants, toddlers and preschoolers to accommodate about 23% of all children 0-4 years of age, inclusive. In Toronto and Central Region, there is space for about 26%-27% of 0-4-year-olds.

Child care is the responsibility of the Ministry of Education, Early Years and Child Care Division. The role of the Ministry is to develop policy, to provide funding, and to update and enforce legislation and regulations in relation to child care and early years services. The Ministry licenses child care centre programs and home child care agencies.

Ontario is unique amongst Canada's provinces and territories in having a central role for municipalities in the planning, funding and administration of funding for licensed child care services. There are 37 Consolidated Municipal Service Managers and 10 District Social Service Administration Boards (CMSMs and DSSABs) that are the municipal service system managers for child care. Child care services are managed by CMSMs and DSSABs through a local service planning process. School boards and child and family programs are also important local partners in the planning and delivery of child care and early years services.

First Nations are an important partner in the delivery of on-reserve child care. First Nations can administer and operate child care and early years programs on reserve and many do. First Nations can also make agreements to exercise any powers of a service system manager on reserve.

In the spirit of the Truth and Reconciliation Commission and with funding from the Ministry, Indigenous-led projects are being established in communities across the province to increase spaces for the Indigenous population and to develop culturally-relevant programming off reserve under the auspices of The Journey Together: Ontario's Commitment to Reconciliation with Indigenous Peoples. On reserve, First Nations are mainly using the funding under the Journey Together program to build new early years child and family centres.

Off reserve, CMSMs and DSSABs are participating in Journey Together projects led by local Indigenous partner organizations, to provide new culturally-appropriate stand-alone child care centres accessible and accountable to the local Indigenous population, to develop both child care centre and home child care services that are accessible to both on and off reserve children, to extend culturally-sensitive services to all residents off reserve as well as collaborating on professional development and training both on and off reserve. In recognition of the unaffordable cost of child care in urban centres across the Province, several communities are planning to establish Indigenous-focused centres with base funding so that the Indigenous population can afford to attend.

Governments in Ontario spent over \$1.3 billion on child care and early years services in 2015. Allocations are provided to CMSMs and DSSABs through the Child Care Funding Formula which is designed to provide an equitable funding allocation for municipal child care service managers across the province.

The primary source of funding for child care services is parent fees. Child care fees vary by region and by child's age. For child care centres, the regional median infant fee varies from \$51.00 per day in the North to \$85.00 per day in Toronto. For toddlers, the range is from \$42.00 to \$66.00. For preschoolers, the range is from \$38.00 to \$52.00 per day.

The main government funding policy that affects the affordability of licensed child care services is the Ontario child care subsidy system. There are income and activity requirements to be eligible for child care subsidy; even then, subsidies may not be available if annual funding has been exhausted. Families earning less than \$20,000 may be able to get a full subsidy, and families earning between \$20,000 and \$40,000 will pay 10% of income above \$20,000. Families earning over \$40,000 will pay \$2,000 plus 30% of their income that is over \$40,000. In general, parents need to be employed or seeking employment, or in training or education, to be eligible for child care subsidy, although there are exceptions according to child or family need. Most families earning above \$100,000 per year are not eligible for financial assistance through the Ontario subsidy system under its current rules.

There are over 111,000 children 0-12 years of age who receive child care subsidies for centre-based care in Ontario. About 40% of infants who are using licensed centre care receive a subsidy, about 34% of toddlers and about 31% of the preschool-aged children who are in centres. There are nearly 260,000 children 0-12 years using licensed centre care who do not receive child care subsidy. The total number of subsidies in family home child care in Ontario in 2017 was nearly 12,000.

Chapter 3: Municipal Issues and Feedback

Municipal representatives told us that the prime challenges to the viability and stability of centres are wages, staff recruitment and retention. The expansion of full-day kindergarten has attracted many qualified child care staff where wages, benefits, and working conditions are generally better than in child care centres. This has made recruitment and retention issues in the child care sector more acute.

Across Ontario, home child care is 4%-6% of all licensed care. Municipalities are pleased with a recent supplement of \$20 per day to home providers, however, there are still serious challenges in the recruitment of adequate numbers of home providers.

Affordability is the main barrier to access for parents. There are a number of other accessibility issues identified by municipalities: rural access and transportation, part-time opportunities, care for children with special needs, and care during non-traditional hours such as evenings, weekends and overnight. A further issue of accessibility is lack of parental awareness of child care subsidy funding and public education about available funding is an important priority. Journey Together funding on First Nations reserves is mainly being used to establish new child and family centres. Accessibility to services that provide culturally-appropriate programming for the off-reserve Indigenous population is so far extremely limited, despite the fact that the large majority of Indigenous families live off-reserve.

CMSMs and DSSABs have grown into the role as caretakers of quality. Most of them have hired quality assurance coordinators, are working in the community to improve quality in their programs, introducing significantly more professional development opportunities as well as mentoring programs. About half of all CMSMs and DSSABs are using a quality measurement tool.

Municipalities were almost unanimous in suggesting that the income test for child care subsidy be made more generous. Most CMSMs and DSSABs support the provincial thresholds for for-profit funding but there needs to be some recognition that this will be more difficult to implement in areas with very high levels of for-profit operators.

The most persistent irritant between schools and municipalities concerns the “rental” or “cost recovery” rate for space in schools. In too many cases, these charges are prohibitively high, which violates the spirit of the Schools First directives. A consistent policy that allows child care to flourish in schools should be adopted.

CMSMs and DSSABs have embraced the challenge posed by the Ministry to work on expansion and are putting considerable effort into achieving their targets, often with limited staff, short timelines and absence of planning resources. The priorities to increase accessibility, expand access to fee subsidy, and

work on affordability are being achieved by reducing the subsidy lists, expanding capacity through capital expansion, Journey Together and collaboration with school boards . Other initiatives include attempts to expand home child care, access to non-traditional hours, rural programs and infant programs. Some CMSMs and DSSABs are assisting affordability by using general operating grants to prevent or reduce fee increases.

The major barrier to expansion of centre-based care is the shortage of Registered Early Childhood Educators occasioned by low wages and lack of interest in the occupation by potential professionals because of those low wages.

Chapter 4: Why Public Funding of Child Care Makes Sense

Increased public funding for child care affordability has widespread support in Ontario, partly because affordable child care will help parents balance the demands of work and family life.

Affordability of child care is particularly important to mothers as child care responsibilities are often a barrier to employment and equal treatment for women.

The net cost of government child care assistance is substantially lower than its gross cost, because increases in parental employment cause increases in tax revenue and reductions in social assistance and other benefits. There may also be increased growth and productivity, multiplying the revenue effects.

The years from birth to age five are crucial ones for children's development. There is substantial and widespread evidence that early childhood education and care can be positive for children's cognitive and language development, completed education levels, employment and wages, as well as making them happy in the short run.

There is also substantial and widespread evidence that the effects of early childhood education and care are not uniform, but are heterogeneous. Policy needs to be directed towards making positive effects as strong as possible. In particular, children from lower-income backgrounds are likely to have stronger positive effects, if they are not excluded from access and quality services. Multiple dimensions of quality are key factors in child care's effects on children.

Chapter 5: The Affordability Problem

Child care fees in Ontario range from about \$9,000 to over \$20,000 per child per year for children 0-4 years. There is substantial regional and age variation in fees, but they are high everywhere relative to incomes, and have been rising faster than inflation.

For families that have at least one child 0-6 years and want to access licensed child care, we find the average family in Ontario would have to spend 20.8% of after-tax family income on child care or nearly 60% of the net income contribution of the main caregiving parent when employed. For families with at least one child 0-4 years, the average family would have to spend nearly one-quarter (23.5%) of after-tax family income on child care or just over two-thirds (67%) of the net income contribution of the main caregiving parent.

We consider licensed child care to be “affordable” if a family can access it for their 0-6 year-old children for less than 10% of after-tax, after-benefit family income. If licensed child care costs 10% to 19.99% of net family income, we call it “unaffordable”. If purchasing licensed child care costs 20% or more of total family income after taxes and benefits, licensed child care is “completely unaffordable” for that family.

For the Caregiving Parent Affordability Measure, licensed child care is “affordable” if a family can access it for their 0-6 year-old children for less than 30% of the after-tax, after-benefit earnings contribution that the main caregiving parent would make to family income if employed (i.e., less than 30% of her net contribution). If licensed child care costs 30% to 59.99% of her net contribution, we will call it “unaffordable”. If purchasing licensed child care costs 60% or more of her earnings contribution after taxes and benefits, licensed child care is “completely unaffordable” for that family. The affordability of licensed child care is closely related to child care and employment behaviour.

Using two different measures, we find that fewer than 22% of Ontario families find licensed child care to be affordable – 19% by one measure and 21.8% by the other. Affordability matters for family decisions. For families that find child care affordable, there is over 63% probability of using licensed child care and over 80% probability that the main caregiving parent is employed; for families that find child care unaffordable or completely unaffordable, the probability of being employed and using licensed child care are much lower.

Affordability is strongly related to family income, despite the efforts of the subsidy system to make licensed child care affordable for low-income families. This table shows the current situation in Ontario, taking existing funding into account.

Affordability by Family Income Level
When Using Licensed Child Care for Children 0-6 Years of Age

Expected Annual Income of the Household	Net Child Care Costs as % of After-Tax After-Benefit Family Income	Net Child Care Costs as % of After-Tax After-Benefit Income Contribution of the Main Caregiving Parent
Less than \$50,000	30.8%	61.7%
\$50,000 - \$99,999	21.2%	69.5%
\$100,000 and more	12.7%	44.2%
Total	20.8%	58.1%

With current policies and levels of affordability in Ontario, about 8% of infants use licensed child care services, about 30% of toddlers and about 37% of children of preschool age. Considering only families with employed mothers, over 12% of infants, over 42% of toddlers and 50% of preschool-aged children currently use licensed child care.

Many families combine parental care of children with employment of all parents in the household. Parents may arrange their work shifts so that this is possible (off-shifting). In these cases, the main caregiving parent will often work part-time or be self-employed in the household. There is evidence that these care decisions are strongly affected by the unaffordability of paid child care.

The unaffordability of child care affects many aspects of women’s employment, hours, and pay.

Across the system, parents pay between 50%-63% of the total cost of licensed child care services in Ontario. Governments pay the rest.

Chapter 6: Different Funding Approaches (The Theory)

The objectives of a funding program for child care are multiple and complex. A child care system must be affordable, accessible and offer services and experiences of good quality. Funding should permit and promote parental employment. It should make available convenient and accessible services with hours and location that correspond to needs. The quality of early childhood education and care (ECEC)

provided to children is always a central issue, because we believe that the quality of care is directly and substantially related to the effects of ECEC on children's multi-faceted development in the early years.

Quality is not easy to describe or measure, but it can be seen in curriculum frameworks to support early childhood education and care, in staff-child ratios, group sizes, training levels of early childhood educators, in the quality of the leadership and mentorship provided by senior staff, in the interactions between parents and educators and in many more ways. Quality is reflected in the resources available to educators, in the way that children from different backgrounds and with different abilities are integrated into the group, in the low rate of turnover of qualified staff.

Another dimension of government's objectives is to make sure that lower income families are particularly enabled to access quality child care services. This is important to mention for two reasons. One is that the benefits to both children and parents in lower income families can be especially large. The second reason is that lower income families are sometimes less likely than other families to be first in line when enhanced child care funding arrangements become available. Families from higher-income families should also receive their fair share of financial assistance to access good quality child care. Nearly all families have difficulty affording child care.

The discussion about supply-side vs demand-side funding is an important one. Should assistance go directly to parents, or should governments finance services, reducing the cost to parents? Should governments play an important role in enhancing the quality of services, or should governments rely on consumer choice to deal with issues of service quality?

The biggest problem with demand-side subsidies is that they provide inadequate mechanisms to ensure that parents purchase high quality care that will support children's optimal development. Since quality is the key determinant of child care's effects on children, this is a central problem.

Supply-side subsidies can be provided in a variety of ways. ECEC services can be provided directly through the public sector by various levels of government (e.g., directly-operated municipal centres) or child care services can be provided by not-for-profit providers who are rigorously monitored to encourage the maintenance of quality standards and financial reporting standards. When the services are provided by not-for-profit operators, the provision of supply-side funding for services acts to stabilize the financial position of the small organizations that are frequently the typical providers.

When services are not free, a sliding scale of fees (adjusted to family income) is often considered to be both equitable and efficient. There are two major types of sliding scale. One uses family income to

determine the percent of family income that a family should pay. The second type of sliding scale uses family income to determine the percent of the full fee that a particular family has to pay.

We seek a funding approach that improves affordability of 0-4-year-old child care for families, while giving special assistance to lower-income families and maintaining or improving quality and accessibility.

The market for child care is a mix of public and private, but there is a growing public interest in keeping fees low and quality high in order to remove barriers to parental employment and increase children's access to good services.

Governments who fund child care on the demand side seek to use market mechanisms to stimulate supply and enhance quality of services.

Supply-side funding recognizes child care as a substantially regulated market, with private (largely not-for-profit) service providers, but regulated supply, quality, staff compensation and fees.

Quebec created a network of highquality not-for-profit services called CPEs (Centres de la Petite Enfance, or Early Childhood Centres). These have had important positive effects on children's development. However, because of very substantial supply shortages in the early days of Quebec's child care reforms, Quebec's system has developed in negative ways. This provides a crucial reminder that problems of phase-in and transition are at least as important as initial funding policy plans.

The Child Care Expense Deduction is a measure originally designed to provide fairer taxation of employed mothers: it shelters from taxation the part of income that pays for a legitimate work expense. Taxation of mothers would be unfair without it.

Chapter 7: What Other Jurisdictions Do

This chapter describes and analyzes funding methods and policies in other jurisdictions, highlighting positive and negative examples of interest to Ontario. The chapter discusses funding arrangements in England, Australia, New Zealand, Denmark, Norway, Sweden, Quebec, Prince Edward Island, and Manitoba.

Early years education and child care are treated separately in England. The new sliding scale in Australia is generous and has an activity requirement. New Zealand uses supply-side measures as the base of its funding of early childhood education. Denmark and Norway have very effective supply-side funding with strong municipal involvement. Sweden has a sliding scale in which the first child costs 3% of family

income. There are important lessons to learn from Quebec about how funding and policy plans can go awry. There are significant examples of policy and workforce innovations in Prince Edward Island and Manitoba.

England

England's early childhood services are systematically divided into education, on the one hand, and care, on the other. Education services for children younger than compulsory school age are largely in the public sector and often in schools. They mostly serve children 3 to 5 years of age. The central government provides funding to local authorities (i.e., municipalities) to ensure that every 3 and 4-year-old has access to a part-time nursery education.

In England, child care services are largely in the private sector, with the lion's share being for-profit services and a smaller share being not-for-profit. Child care services are viewed as being a support for parental employment, not as education, and are typically quite expensive.

Australia

Australia has a sliding scale of child care fees where families earning less than about Can\$65,000 get 85% of costs covered, falling to 50% at about Can\$170,000. Beyond Can\$350,000 there is no child care fee assistance: assistance for fees is capped at Can\$11.55 per hour, higher than most current fees. There are activity requirements to be eligible for this fee assistance. Low-income families who do not meet the activity requirements are eligible for 12 hours per week child care for each child.

Median fees in Australia for children 0-5 are about Can\$20,000 annually. Increased generosity of funding over the years has lowered the fees that parents have to pay, but only temporarily – the general trend is up.

New Zealand

There are a number of different types of ECEC services in New Zealand. The predominant type of teacher-led service is centre-based ECEC, which children can attend either part-time or full-time and which caters for children from birth to school age. In New Zealand, children can choose to start school any time after their fifth birthday and must start school by the time of their sixth birthday.

Most child care funding in New Zealand is provided on the supply side in order to keep parent fees low. There is also 20 hours of "free" ECEC provided to all 3- and 4-year-old children. All supply-side funding is provided through the Ministry of Education according to formulas based on cost-drivers.

Denmark

Most child care funding in Denmark is supply-side funding, provided by municipalities to child care providers. Local authorities are required to ensure that there is a child care place for every child over 26 weeks of age whose parents want one (within 4 weeks of turning 26 weeks). The central government provides block grants to local municipalities and local governments raise tax money as well to fulfill these obligations.

Most child care funding in Denmark is designed to keep parent fees relatively low. Parent fees are set annually by municipalities, and municipalities are required to fund child care providers so that parents pay no more than 25% of the actual cost of the service. There are also discounts for siblings.

Norway

There are three types of child care (known as kindergartens) in Norway. Ordinary kindergartens (barnehager) can be public or private. They offer half-day or full-day service all year round for children between 0 and 5 years of age. Family kindergartens (familiebarnehager) are based in private homes, where an assistant works with a maximum of five children, supervised and mentored by a qualified kindergarten teacher on a weekly basis. Open kindergartens (åpne barnehager) are part-time drop-in centres with programs for parents and children to participate in together, led by a qualified kindergarten teacher.

Obtaining a place in kindergarten is a statutory right for every child, but participation in ECEC is voluntary. About 50% of the centres in Norway are municipally owned and operated; the other 50% are run by private operators, most of them not-for-profit.

Most child care funding in Norway is supply-side operating funding. The government imposes a statutory fee cap on the parental fee for centre-based or family child care (NOK 2,655 per month in 2016 or about Can\$418 per month or Can\$4,600 per 11-month year). This means that parents cover about 15% of the cost of ECEC through parent fees. The bulk of the operating costs of ECEC are covered by government funding, that is about 85% of operating costs. About 90% of children 1-5 years of age attend child care.

A new plan provides 20 hours of free child care per week to 3-, 4- and 5-year-old children from families earning less than about Can\$66,000 annually. Parents have to engage in some activity (e.g., Norwegian language courses) in order to be eligible.

Sweden

Sweden has an integrated and largely universal child care system for children younger than school age, considered as a part of the education system (but voluntary). It is designed to support employment and study activities as well as providing play-based education for children at low or zero cost to parents.

The main type of child care in Sweden is centre-based preschool or förskola. Preschool is also available as home child care. Preschool serves children 1-5 years of age (children younger than one year of age are nearly all cared for by parents receiving relatively generous parental payments). Preschool is intended to be safe, fun and instructive, and it promotes a philosophy of the equality of all individuals, particularly of girls and boys. Municipalities are responsible for ensuring that children who want to attend are provided a place in preschool – within four months of the request. Most of the preschools (81%) are municipally owned and operated. About 19% of centres are independently operated – run by parents, staff or as a business.

Central government defines goals and objectives of child care, such as the national curriculum. Municipalities play the main role in implementing policy, planning and delivering ECEC services. Municipalities also determine working conditions and pay of child care staff locally. Municipalities receive annual quality reports and pedagogical documentation from child care services

In Sweden, the parent fee depends on parental income in a scheme known as Maxtaxa. Under this scheme, parents are charged no more than 3% of household income for one child in preschool/child care up to a maximum monthly household income. The maximum a family could have to pay per month for one child in preschool is approximately Can\$209 per month.

For the second child, the maximum charge is another 2% of household income, and another 1% for the third.

Quebec

Quebec has a network of Early Childhood Centres and family homes that were the original heart of their system of reduced-fee child care services. The base rate for this child care is now \$7.75 per day for families earning less than about \$50,000. For other families, there is a sliding scale of payments rising to \$21.20 per day at about \$160,000 and above.

For families not using reduced-fee child care in Quebec, there is a tax credit for child care expenses – a different sliding scale of payments. Families earning less than about \$35,000 will be reimbursed through the tax system for 75% of the full fee; families earning more will be reimbursed less; and families

earning above about \$155,000 will be reimbursed 26% of the full fee. This funding compensates parents using informal unlicensed care, as well as other types of care.

Prince Edward Island

Recently, Prince Edward Island has reorganized existing licensed child care programs into a publicly-managed network of Early Years Centres and Infant Homes in which fees are regulated, wages are based on a common salary scale, and there is sector planning, professional development and management support.

Manitoba

Manitoba has pioneered many innovations in management of a child care system. Manitoba provides base funding to services willing to become a funded facility. Funded facilities are not-for-profit centres and family homes that are willing to cap fees. Two-thirds of staff are required to have an ECE diploma, however, there are important problems recruiting sufficient staff.

Chapter 8: Different Funding Approaches – The Evidence

Which funding model would be best for Ontario? We consider several alternatives:

1. A generous sliding scale of child care fees, where all families with earnings less than \$40,000 pay nothing, all families with incomes above \$240,000 pay 80% of the full cost of the child care they use, and in between, families pay an increasing percentage of the full fee as their income is higher. We call this a \$40K-\$240K sliding scale.
2. Free licensed child care for preschool children between 2½ years of age and kindergarten. For other ages, fees are charged based on family income. For children other than preschool age, families with earnings less than \$50,000 will pay nothing; and families earning over \$150,000 will pay 80% of the full fee. In between, families pay an increasing percentage as family income rises. We call this a \$50K-\$150K sliding scale.
3. The maximum fee for child care is capped at \$20 per day per child. The existing Ontario subsidy system provides financial assistance to lower-income families that cannot afford \$20 per day.
4. Kevin Milligan has recently recommended adopting a tax credit for child care expenses similar to one of the types of funding that is currently available in Quebec. We model a version of his idea, with families having to pay from 25% of the full-fee at low incomes to 74% at high levels of income.

We use two different approaches to assess these policy options. One calculates the returns to employment for a parent that uses licensed child care at different levels of income. We draw charts that show how the returns to employment, after child care costs, are affected at different levels of earnings by the four policy options above, in comparison to the current subsidy system. A policy that gives higher returns to employment after child care costs is one that lowers child care cost barriers for parents.

Returns to Employment – Lone Parent Families

We look at two sample families. One is a lone parent family with a toddler, facing full child care fees of \$17,000 annually. The second is a two-parent family in which one spouse is employed earning \$40,000. They have two children – 2 and 3 years of age – and full child care fees would be \$30,000 annually.

The existing Ontario subsidy system is important in lowering the barriers to employment for lone parent families able to access subsidies; however, this financial assistance disappears above about \$85,000. For lone parent families, either of the sliding scales we are considering - \$40K-\$240K or \$50K-\$150K combined with free preschool child care - provides much stronger employment incentives than the existing subsidy system, spendable income after child care costs is equivalent (i.e., for sliding scales vs. subsidy) at very low levels of income for lone parents, and higher at all other levels of income for both lone parent and two parent families.

The Milligan tax credit for child care expenses is negative for low-income lone parent families – they do much worse than with the subsidy system. Above about \$50,000, the tax credit improves employment returns, but not generally by as much as the sliding scale options.

The \$20 per day per child flat fee combined with a fully-funded subsidy system improves employment returns for many families compared to the current situation. However, between about \$20,000 and \$90,000, it does not boost employment returns by as much as the sliding scale funding models.

Returns to Employment – Two-Parent Families

The results of these funding policies are broadly similar to the pattern seen for lone parent families when we consider the employment returns available to a parent in a two-parent family with two children who is considering a return to work.

When this parent enters the labour force she gains employment income. But as her earned income rises, her family will be eligible for less Canada Child Benefit, less Ontario Child Benefit, and she will have to pay income taxes, Canada Pension Plan payments and Employment Insurance payments. Her spouse will lose the value of the Spousal Credit, as a credit against his taxes. And, of course, she will face

substantial fees for licensed child care. All of this reduces the percentage of her gross earnings that contributes to an increase in spendable income for the family, and affects the employment returns from taking a paid job.

If this family faces the full child care cost, her employment returns are likely to be negative. If she cannot earn at least \$60,000 per year, there is no obvious financial reason to be employed.

The existing Ontario subsidy system will improve these returns, but for a low-earning main caregiving parent, she will still only increase the family's spendable income by 20%-30% of her gross earnings. The Ontario child care subsidy system is less helpful to this two-parent family than to a lone-parent family, largely because this family is only eligible for partial subsidy.

The tax credit performs poorly for this two-parent family – it is worse than the existing subsidy system for our two-parent family with two children unless the main caregiving parent earns \$35,000 or more. And it provides lower employment incentives than other funding policies for other levels of her gross earnings.

The \$20 per day per child policy, combined with a well-funded subsidy system, improves employment returns for a two-parent family better than other policies if her gross earnings are over \$55,000. However, for earnings below about \$40,000, this policy fares much worse than either of the sliding-scale options, and is only a modest improvement over the existing subsidy system.

Both the \$40K-\$240K sliding scale, and the provision of free child care for children of preschool age combined with a \$50K-\$150K sliding scale for children of other ages, do quite well in increasing employment incentives (reducing barriers to employment) for the main caregiving parent in a two-parent family. Free child care for preschool ages plus a sliding scale for other ages is noticeably better than the \$40K-\$240K sliding scale when the main caregiving parent's income is quite low.

Our strong conclusion is that either one of the sliding scale policy options is strongly preferred to either the \$20 flat fee or the tax credit for child care expenses. If we care particularly strongly about lower-income families, the free preschool child care plus \$50K-\$150K sliding scale gets the nod.

Results from Child Care Demand and Employment Model

The second approach we use to assess these four child care funding options required the building of a software model using Statistics Canada data. This model resides in the Research Data Centre at the University of Toronto. The model forecasts child care and employment decisions of families across Ontario who responded to the National Household Survey of 2011. Child care and employment decisions are modelled statistically, so that variations in family and child characteristics as well as changes in parental incomes, child care fees, and child care policies can be used to predict child care and employment decisions. The model allows us to calculate the taxes a family will pay, the affordability of child care, the net child care price a family will have to pay, as well as the total governmental cost of any child care policy and the total tax revenue government will raise.

Simulations using this model confirm that licensed child care is distinctly unaffordable right now for many families. Families with young children (0-4) now have to spend over 23% of their after-tax family income to access licensed child care services. As compared to the income contribution that the main caregiving parent can make when she returns to employment, child care spending would be on average over two-thirds of her income.

The \$40K-\$240K sliding scale would transform the child care system into one that is affordable to virtually all families. Demand for all age categories of licensed child care increases dramatically in this simulation, more than doubling overall and rising to nearly six times its current level for infants. The average percent of family income that a family with children 0-4 would spend on licensed child care would now be 2.7%, and the average percent of the main caregiving parent's income contribution would be 9.5%. The gross cost to government would be \$4.5 billion. Government revenues are predicted to rise by \$1.3 billion in the near-term, including both federal and provincial revenues.

Making child care services free of charge for children from 2½-4 years of age would also have dramatic effects. This is combined with a \$50K-\$150K sliding scale for infants, toddlers and kindergarten children. Affordability is substantially improved for families in all income categories, particularly lower-income families. On average, families with children 0-4 would now pay 2.7% of after-tax family income to access licensed child care services. There are substantial increases in the demand for infant and toddler child care, and an especially large increase in the demand for preschool care in this simulation. Overall child care demand would more than double. The gross cost to government would be \$4.4 billion. Government revenues are predicted to rise by \$1.3 billion in the near-term, including both federal and provincial revenues.

Lowering the full fee to \$20 per day per child for infants, toddlers, preschoolers and kindergarten children is combined with the maintenance and expansion of the subsidy system to provide extra

assistance to low-income families. This simulation substantially improves affordability – to 3.7% of after-tax family income on average for families with children 0-4. There are substantial increases in the demand for infant and toddler care and overall demand for licensed care more than doubles. The gross cost to government would be \$3.9 billion. Government revenues are predicted to rise by \$1.1 billion in the near-term, including both federal and provincial revenues.

The final simulation would adopt a new provincial tax credit for child care expenses. We have chosen to model this with a continuation of the existing subsidy system; without this, as we have seen, the tax credit would have very negative effects for low-income families. Even so, this tax credit has effects on affordability that are notably less effective than for alternative funding policies. With this tax credit, families with children 0-4 would pay, on average, 7.8% of their after-tax family income to access licensed child care. Families with incomes below \$50,000 would pay 8.0% of net incomes, families between \$50,000 and \$100,000 would pay 7.3% of income and families at \$100,000 and above would pay out 6.0% of net family income. This pattern (i.e., higher % for low-income families) is opposite to those of other alternative policies. The gross cost to government would be \$3.2 billion. Government revenues are predicted to rise by \$0.8 billion in the near-term, including both federal and provincial revenues.

Only two of these simulations are ones that we think should be considered seriously for implementation. Both the \$40K-\$240K sliding scale and free child care for preschool children plus a \$50K-\$150K sliding scale have very positive effects on affordability and desirable distributional effects in terms of income groups and lone parent/two parent affordability.

There are, however, important problems of phase-in. There are not yet enough licensed spaces to meet all the demand that would be created. Dealing effectively with these transition issues will make it clear that the option that provides free child care for children of preschool age is the best one.

Chapter 9: Workforce Issues, Compensation and Costs

It is not possible to solve child care affordability problems without considering workforce compensation. Wage and benefit payments are by far the largest component of child care costs and, for many reasons, compensation of child care staff will rise. The government needs a strategic plan to address workforce issues in order to manage rapid expansion of the sector.

A workforce strategy would include establishing target levels of education and training, the design of a salary ladder, target compensation packages, and would deal with recruitment issues.

Taking all workers in child care centres together, the median wage level in Ontario (before minimum wage rises) is between \$15 and \$20 per hour. In most parts of the province, unqualified staff receive (in

2017) a wage which is very low (\$11.40-\$15 per hour at the median – effectively \$13.40-\$15 per hour because of the \$2 Wage Enhancement Grant). Qualified staff receive between \$15 and \$20 per hour. Even supervisors' wages are not particularly high across most of the province at \$20-\$26.68 per hour at the median. Toronto is an exception, with hourly wages for unqualified and qualified program staff and supervisors being higher, at the median, than in the rest of the province. Ottawa is a partial exception, too.

If we compare hourly wages in other occupations to those in child care, we get a sense of the difficulties of recruiting additional qualified workers at current wages. Current child care wages appear to be competitive with other occupations when workers are 15-24 years of age. However, child care wages are distinctly uncompetitive with hourly wages paid to female workers who are 25-54 years of age in many occupations across the province.

Compensation levels need to rise in child care if expansion is going to be possible. In particular, compensation levels need to rise so that the staff that are recruited will be capable, well-qualified staff who will decide to stay in the sector.

We have developed a spreadsheet-based costs model for child care centres in Ontario that allows us to analyze different child care cost issues. Research has shown that wages and benefit costs can make up 80% or more of the cost of providing child care. However, it is important to see that staff costs are a bigger fraction of infant care costs, than of toddler or preschool costs. When we look at the low end of current wage ranges, it is a good generalization that the percent of staff costs is in the 80's for infants, the 70s for toddlers and the high 60s for preschoolers. The percentages are somewhat higher if overall wage levels are higher, but the principle remains. In other words, staff costs (wages and benefits of program staff and supervisor) are a considerably lower percentage of the cost of preschool child care than they are of infant child care.

We use the costs model to calculate the impact of a 10% increase in wages, a 5 percentage-point increase in benefits, and the impact of reaching a desirable target level of compensation for all child care workers. We also model the effect of having all contact staff as qualified Registered Early Childhood Educators.

This type of costs modelling has an important role to play in controlling costs, determining appropriate fees, and capping fees.

Manitoba, Prince Edward Island, and Saskatchewan have created policy models with some useful lessons – about salary grids, benefit packages, professional development, and caps on fees.

Chapter 10: Transitions - How to Manage Growth in the Child Care System

Based on the issues raised in this chapter, together with the analysis in the rest of this report, we recommend that implementing free child care for preschool-aged children is the immediate priority to improve affordability of licensed child care in Ontario. As physical and staffing capacity are ramped up, increased affordability for other ages should be phased in.

Ontario is in a good position to take the next steps in expanding the licensed child care system and in making it much more affordable. However, expansion will not be easy; it will bring some very large challenges.

With full implementation of either one of the sliding scales modelled, the increase in the number of children 0-4 years of age using licensed care would be nearly 200,000 and for children 0-6 (not yet in school), demand would increase by at least 275,000 children. Immediately after the announcement of a new funding policy, there is likely to be a substantial shortage of capacity relative to demand, unless the government is able to find a way to phase-in affordability over time.

There are (at least) five distinct problems of transition (or phase-in) that are important to consider:

- Physical capacity in licensed centres and homes;
- Development and management of the expanded system;
- Shortages of trained qualified staff and even of unqualified staff;
- How to ration scarce spaces and/or phase-in demand; and
- Maintaining and improving quality during the transition, including the role of for-profit child care providers in the transition and after.

Even if capacity can be rolled out very quickly, there will be some capacity constraints (i.e., shortages or excess demand) over the next five years.

Municipalities will play a central role in capacity expansion, in a development role. For this, they will need extra resources and clear targets and timelines with both capital and operating funding.

The management capacity in the sector is in some cases weak. The majority of child care centres in Ontario are managed by small- to medium-sized non-profit boards of directors, usually composed of parents. Many directors of programs have little management expertise or management qualifications.

We recommend that existing centres and home child care agencies be required to apply to have the right to provide free or reduced-fee services and receive substantial public funding from government. Existing centres and home child care agencies would sign contracts agreeing on terms such as provision of services, conditions of service, and rights to inspect in exchange for payments from municipalities for services provided. In a similar situation in Prince Edward Island, centres with such contracts were designated as Early Years Centres as a mark of recognition of this new status. Ontario would have to develop a similar designation, as a signal of quality and regulation to parents.

As demand expands, operators will struggle to find enough qualified staff, or indeed enough staff at all. Compensation will have to rise in order to attract sufficient new staff. The province (and municipalities) have a strong interest in structuring higher compensation to provide incentives for continuous upgrading, apprenticeships, basic training for unqualified staff, and incentives for qualified staff to make licensed child care into a career choice.

There are a number of ways of rationing spaces when there is excess demand (e.g. by geography, age of child, income group) but rationing (i.e., allocating services in a managed way) will be easier if access to dramatically improved affordability can be phased-in. Careful management of the timing of funding reforms could help with excess demand issues.

Free Preschool Child Care

In earlier chapters, we have concluded that the two sliding scale policy alternatives – a \$40K-\$240K sliding scale, or free child care for preschool children plus a \$50K-\$150K sliding scale – are better at reducing barriers to employment and improving affordability than either the flat fee (\$20 per day) or tax credit approach. The free child care for preschool children policy has a distinct advantage – it would be easier to phase in. The Government of Ontario should decide, as an immediate priority, to make preschool-aged child care free for Ontario families. Preschool-aged child care is already very popular and most families seek out good quality group experiences for their children in the year or so before kindergarten. Making child care free would help all families with child care affordability in the years immediately before kindergarten.

Starting with preschool age makes sense in other ways. There is already a large licensed capacity of child care available to serve children of this age, so shortages would be less acute than for other age groups. Because the required staff:child ratio for preschoolers is 1:8, expansion of services requires

fewer new staff than if, for instance, expansion was concentrated among children of toddler age, where the staff: child ratio is 1:5. It will take time and effort to ramp up both physical capacity and staff capacity. These efforts will bear more fruit more quickly for children of preschool age.

During the phase-in period for free preschool child care, the existing child care subsidy system would continue for children younger or older than preschool. As licensed capacity and staffing capacity increase, the Government should increase funding available for subsidy, and loosen some of the restrictive regulations on activity requirements so that more funding is available to improve affordability, particularly for infants and toddlers. When there is sufficient physical and staff capacity, a \$50K-\$150K sliding scale of funding should be implemented.

The gross cost to government of free preschool child care together with continuation of the subsidy system would be \$1.6 billion. This cost is reached only when all new preschool demand is satisfied. Government revenues are predicted to rise by about \$500 million in the near-term, including both federal and provincial revenues. As the restrictions and stigma of the subsidy system are loosened and as it becomes fully funded, more families would be helped and costs would rise. This option with a fully-funded subsidy system where financial assistance was available as a right would have gross costs to government of \$2.6 billion with additional government revenues of about \$700 million in the near-term.

Making preschool child care free will require that licensed capacity for preschool-aged children be expanded rapidly. The development and licensing of this expansion needs to be carefully managed by municipalities, so that new capacity for infants, toddlers and other ages is incorporated into newly built or renovated centres. As infant and toddler capacity is expanded, the Ministry of Education can increase funding and loosen rules on subsidy so that more families are able to afford this child care. When there is sufficient physical and staff capacity, the Government can amend legislation to provide a \$50K-\$150K sliding scale of funding as a right to parents.

It is highly problematic to rely on the for-profit sector as a major provider of services if you are seeking to build a quality service, and what is essentially a public service. The Ministry of Education has made it clear that coming expansion will be focused in the not-for-profit and public sectors. This is appropriate, but may be difficult.

The Government of Ontario, through the Ministry of Education, has invested substantially in improving legislation, regulations, institutions and funding of early learning and child care as well as child and family centres in Ontario over the last decade. Ontario, with the support of its capable municipalities, is in a good position to take the next steps in expanding the licensed child care system and in making it much more affordable.